

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CUSTER TOWNSHIP	County ANTRIM
Fiscal Year End 3-31-06	Opinion Date 7-18-06	Date Audit Report Submitted to State 10-12-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

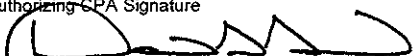
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	N/A	
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) DAN SMITH, CPA		Telephone Number (989) 732-1441	
Street Address 114 S CENTER AVENUE SUITE 108		City GAYLORD	State MI
Zip 49735			
Authorizing CPA Signature 	Printed Name DAN SMITH	License Number 20912	

**TOWNSHIP OF CUSTER**  
**ANTRIM COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

## **TOWNSHIP OFFICIALS**

SUPERVISOR

ROBERT RICKSGERS

CLERK

STACY SIMON

TREASURER

RENEE ELDER

## **TRUSTEES**

ROXANN FLAKE

JERRY ALLEN

# **TOWNSHIP OF CUSTER**

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DAN  
SMITH

CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITOR'S REPORT**

July 18, 2006

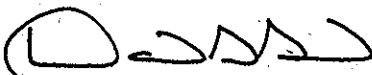
To the Township Board  
Township of Custer

I have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Custer, Antrim County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on our audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Custer, Antrim County, Michigan as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages II - V and budgetary comparison information on pages 19 - 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Daniel S. Smith, CPA

# **TOWNSHIP OF CUSTER**

## **TOWNSHIP OF CUSTER MANAGEMENT'S DISCUSSION & ANALYSIS YEAR ENDED MARCH 31, 2006**

This section of the Township of Custer's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

Township assets at March 31, 2006, as reported in the Statement of Net Assets, totaled approximately \$1,193,000 for governmental activities. Of the total Township assets, approximately \$98,000 represents capital assets net of depreciation.

Overall revenues were approximately \$808,000 (\$11,000 from program revenues and \$797,000 from general revenues). Overall expenses approximated \$688,000.

The Township did not incur any new debt instruments during the year. Long-term debt and capital asset activity is addressed further in a subsequent section of this letter.

The registered voter count is now 871.

The taxable value of the Township for the 2005 tax year was \$89,826,181, up from \$85,376,224 in 2004.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts, management's discussion & analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present the governmental activities of the Township. The Township does not engage in any business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

## **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the entity's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities; this is one method to measure the Township's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of the Township are reported as governmental activities.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

**Governmental Funds:** All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

### **FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net Assets:** The Township's combined net assets increased approximately \$119,000 during the year ended March 31, 2006 totaling \$1,122,905.

The increase is mainly due to conservative fiscal monitoring by the board over virtually all expenditures.

## **FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (CONTINUED)**

**Governmental Funds:** The fund balances for governmental funds increased approximately \$111,000. This increase is slightly lower than the "net assets" increase because the debt service principal payments (\$5,000) are recorded as an expenditure in the general fund statement, while the interest portion only is deducted in the statement of activities. Additionally, capital expenditures (\$5,753) are depreciated over their estimated lives in the statement of activities.

## **FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

**General Fund:** This fund is used to record all activities of the Township not required to be recorded in a separate fund. This would primarily include township administration, assessing, ambulance, fire, and water services, trash pickup, road repair/construction, and the costs to operate the township hall. The major sources of revenue for the general fund are from the Township tax base and the revenue sharing from the State of Michigan. The major expenses for this fiscal year included salaries, improvement of several roads, along with trash and ambulance, and water services.

**Fire Fund:** The Fire Fund is used to account for all activities related to fire protection services. Revenues are derived primarily from property taxes and totaled \$161,131. Fire expenditures totaled \$161,830. All fire services are under contract with the Mancelona, Bellaire, and South Torch Lake Fire Departments.

## **CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

**Capital Assets:** Additions to the Township's capital assets include a new fence at Lake of the Woods in the amount of \$5,753.

**Long-Term Debt:** The Township collects a special assessment to service the debt incurred to improve roads and paths in the Swiss Village East area. The debt was reduced from \$75,000 to \$70,000 over the past year.

## **KNOWN FACTORS AFFECTING FUTURE OPERATIONS**

None known.



## CONTACTING TOWNSHIP MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact one of the following Township officials.

Robert H. Ricksgers Supervisor  
Robert Ricksgers, Supervisor

Stacy Simon Clerk  
Stacy Simon, Clerk

Rehee Elder Treasurer  
Rehee Elder, Treasurer

**TOWNSHIP OF CUSTER  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

**ASSETS**

**Current Assets:**

Cash	\$ 705,524
Cash - Restricted	19,540
Certificates of Deposit	320,783
Due from County	93,901
Due from Other Funds	52,778
	<hr/>
Total Current Assets	1,192,526
	<hr/>

**Capital Assets:**

Capital Assets	146,191
Less, Accumulated Depreciation	(48,037)
	<hr/>
Total Capital Assets	98,154
	<hr/>

<b>Total Assets</b>	<b>1,290,680</b>
	<hr/> <hr/>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	\$ 58,447
Due to the Water Authority	30,964
Due to the Ambulance Authority	8,364
Bonds Payable - Current Portion	10,000
	<hr/>

<b>Total Current Liabilities</b>	<b>107,775</b>
	<hr/>

**Long-Term Liabilities:**

Bonds Payable	60,000
	<hr/>

<b>Total Liabilities</b>	<b>167,775</b>
	<hr/> <hr/>

**NET ASSETS**

Investment in Capital Assets	98,154
Net Assets, Unrestricted	1,005,211
Net Assets, Restricted	19,540
	<hr/>
<b>Total Net Assets</b>	<b>\$ 1,122,905</b>
	<hr/> <hr/>

See accompanying notes to the financial statements

**TOWNSHIP OF CUSTER  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

	<b>P R O G R A M   R E V E N U E S</b>			<b>NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS</b>
	<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS AND CONTRI- BUTIONS</b>	<b>CAPITAL GRANTS AND CONTRI- BUTIONS</b>	<b>GOVERNMENTAL ACTIVITIES</b>
<b>EXPENSES</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
Township Administration	\$ (90,056)	\$ -	\$ 3,064	\$ (86,992)
Fire Protection	(161,830)			(161,830)
Road Repair/Construction	(133,520)		4,955	(128,565)
Water Services	(130,575)			(130,575)
Trash Pickup	(87,390)			(87,390)
Assessing	(19,733)			(19,733)
Ambulance Service	(42,672)			(42,672)
Buildings and Grounds	(8,716)	2,915		(5,801)
Cemetery	(7,273)			(7,273)
Interest Expense	(3,608)			(3,608)
Unallocated Depreciation	(2,895)			(2,895)
	<u>(688,268)</u>	<u>2,915</u>	<u>8,019</u>	<u>(677,334)</u>
<b>GENERAL REVENUES</b>				
Property Taxes				679,957
State Shared Revenues				66,925
Property Tax Admin. Fee				14,463
Interest				26,938
Royalties				8,286
Miscellaneous				10
Total General Revenues				<u>796,579</u>
Change In Net Assets				<u>119,245</u>
<b>Net Assets - Beginning of Year</b>				<u>1,003,660</u>
<b>Net Assets - End of Year</b>				<u>\$ 1,122,905</u>

See accompanying notes to the financial statements

**TOWNSHIP OF CUSTER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2006**

	<b><u>MAJOR FUNDS</u></b>		
	<b><u>GENERAL</u></b>	<b><u>FIRE</u></b>	<b><u>TOTAL</u></b>
<b>ASSETS</b>			
Cash	\$ 655,895	\$ 49,629	\$ 705,524
Cash - Special Assessments	19,540	-	19,540
Certificates of Deposit	320,783	-	320,783
Due from County - Delinquent Taxes	72,962	20,939	93,901
Due from Other Funds	52,778	-	52,778
	<hr/>	<hr/>	<hr/>
Total Assets	1,121,958	70,568	1,192,526
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts Payable	6,804	51,643	58,447
Due to the Water Authority	30,964	-	30,964
Due to the Ambulance Authority	8,364	-	8,364
	<hr/>	<hr/>	<hr/>
Total Liabilities	46,132	51,643	97,775
	<hr/>	<hr/>	<hr/>
<b>Fund Equity:</b>			
Fund Balance - Unrestricted	\$ 1,056,286	\$ 18,925	\$ 1,075,211
Fund Balance - Restricted	19,540	-	19,540
	<hr/>	<hr/>	<hr/>
Total Fund Balance	1,075,826	18,925	1,094,751
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 1,121,958	\$ 70,568	\$ 1,192,526
	<hr/>	<hr/>	<hr/>

See accompanying notes to the financial statements

**TOWNSHIP OF CUSTER  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006**

<b>TOTAL FUND BALANCE - GOVERNMENTAL ACTIVITIES PER BALANCE SHEET - PAGE 3</b>	<b>\$ 1,094,751</b>
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Amounts reported for governmental activities in the Statement of Net Assets (Page 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore not used in the funds	98,154
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Long-term liabilities are not due and payable in the current period and therefore not reported in the funds	(70,000)
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<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES PER STATEMENT OF NET ASSETS - PAGE 1</b>	<b>\$ 1,122,905</b>
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See accompanying notes to the financial statements

**TOWNSHIP OF CUSTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2006**

	<u><b>MAJOR FUNDS</b></u>		
	<u><b>GENERAL</b></u>	<u><b>FIRE</b></u>	<u><b>TOTAL</b></u>
<b>REVENUES</b>			
Taxes and Assessments	\$ 519,988	\$ 159,969	\$ 679,957
State Shared Revenue	71,880	-	71,880
Charges for Services	17,527	-	17,527
Interest	25,776	1,162	26,938
Royalties	8,286	-	8,286
Rent/Other	2,925	-	2,925
Total Revenues	646,382	161,131	807,513
<b>EXPENDITURES</b>			
General Government	483,016	-	483,016
Debt Service	8,608	-	8,608
Public Safety:			
Ambulance Services	42,672	-	42,672
Fire Protection Services	-	161,830	161,830
Total Expenditures	534,296	161,830	696,126
Excess (Deficiency) of Revenues Over Expenditures	112,086	(699)	111,387
<b>Fund Balance - Beginning of Year</b>	963,740	19,624	983,364
<b>Fund Balance - End of Year</b>	<u>\$ 1,075,826</u>	<u>\$ 18,925</u>	<u>\$ 1,094,751</u>

See accompanying notes to financial statements.

**TOWNSHIP OF CUSTER  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

<b>NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS - PAGE 5</b>	<b>\$</b>	<b>111,387</b>
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Amounts reported for governmental activities in the Statement of Activities (page 3) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives.		5,753
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Depreciation expense is recorded in the Statement of Activities but not in the governmental fund financial statements.		(2,895)
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Governmental funds do not report long-term debt; therefore, debt service payments are recorded as an expenditure. However, in the government-wide financial statements, long-term debt is recorded and debt service payments are applied against the outstanding balances.		5,000
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<b>CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES PER THE STATEMENT OF ACTIVITIES - PAGE 2</b>	<b>\$</b>	<b>119,245</b>
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See accompanying notes to the financial statements

**TOWNSHIP OF CUSTER  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
MARCH 31, 2006**

**ASSETS**

Cash - Tax Account	\$ 270,626
	<u>                    </u>

**LIABILITIES**

Due to Other Funds	52,778
Due to other Governmental Units	217,848
	<u>                    </u>
Total Liabilities	270,626
	<u>                    </u>

**NET ASSETS**

Net Assets	\$ -
	<u>                    </u>

See accompanying notes to the financial statements



**TOWNSHIP OF CUSTER  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED MARCH 31, 2006**

**RECEIPTS:**

Property Taxes and Interest	\$ 1,955,222
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**DISBURSEMENTS:**

Property Tax and Interest Disbursements	1,955,222
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<b>Change in Fiduciary Net Assets</b>	<b>-</b>
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<b>Fiduciary Net Assets - Beginning of Year</b>	<b>-</b>
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<b>Fiduciary Net Assets - End of Year</b>	<b>\$ -</b>
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See accompanying notes to the financial statements

**TOWNSHIP OF CUSTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

**NOTE A: ENTITY**

The Township of Custer is a General Law Township of the State of Michigan located in Antrim County, Michigan. It operates under an elected board and provides service to its residents in many areas including community enrichment, public safety, and human services. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based on these guidelines, there are no other entities which should be considered for inclusion in this report.

The various Fire Boards that provide fire protection services to the Township; the Bellaire Fire Department, Mancelona Fire Department and South Torch Lake Fire Department provide coverage to separate areas of the Township. The Township pays standby and/or fire run fees to these Departments. The Township has no oversight responsibilities for these various Fire Departments. All contractual costs associated with these services are included in the financial statements.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of the Township of Custer are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of the Township of Custer conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2003, the Township of Custer adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the Township as a whole, excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Township has no business-type activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included as program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

*General Fund* - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state revenue sharing, and other inter-governmental revenues.

*Fire Fund* - This fund is used to account for all financial transactions related to the Township's fire protection services. Revenues are derived primarily from property taxes.

***Other Funds***

*Fiduciary Funds* - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Township departments. Fiduciary fund financial statements also report using this same focus and basis of

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

***Government-Wide Financial Statements (Continued)***

accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005, are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year totaled \$89,826,181.

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The tax rates for the year ended March 31, 2006, were as follows:

<b>PURPOSE</b>	<b>RATE/ASSESSED VALUATION</b>
General	0.9894 mills per \$1,000
Fire	2.0000 mills per \$1,000
Roads	0.9894 mills per \$1,000
Ambulance	0.4885 mills per \$1,000
Trash	1.2000 mills per \$1,000

**BUDGET**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items. During the year ended March 31, 2006, there were no over expenditures.

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25 – 40
Improvements, other than buildings	10 – 20
Machinery and equipment	5 – 10
Vehicles	5 – 10
Infrastructure	20 - 40

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION (CONTINUED)**

Land and construction in progress are not depreciated.

With respect to asset improvements, costs over \$1,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Other wise, the cost should be expensed as repair and maintenance.

For information describing capital assets, see Note E.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND  
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE C: CASH AND INVESTMENTS**

Cash consists of bank accounts or securities with original maturities of 90 days or less.

**TOWNSHIP OF CUSTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

**NOTE C: CASH AND INVESTMENTS (CONTINUED)**

All cash deposits are maintained in financial institutions in Northern Michigan. The Township's deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

Category 3 – Uncollateralized.

	<u>BANK BALANCE</u>	<u>1</u>	<u>CATEGORY 2</u>	<u>3</u>	<u>CARRYING AMOUNT</u>
General Fund	\$ 692,634	\$ 200,000	\$ -	\$ 492,634	\$ 675,435
Fire Fund	159,298	100,000	-	59,816	49,629
<b>Total</b>	<u>\$ 851,932</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 552,450</u>	<u>\$ 725,064</u>
Trust & Agency	<u>\$ 270,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,926</u>	<u>\$ 270,626</u>

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's **investments** are as follows:

Category 1 – Insured or securities held by the Township or the Township's agent in the Township's name.

Category 2 – Uninsured with securities held by the counter party's trust department or its agent in the Township's name.

Category 3 – Uninsured with securities held by the counter party's trust department or agent but not in the Township's name.

	<u>1</u>	<u>CATEGORY 2</u>	<u>3</u>	<u>CARRYING AMOUNT</u>
General Fund	\$ 224,798	\$ 95,985	\$ -	\$ 320,783

**NOTE D: DUE FROM/TO OTHER FUNDS**

Due From/To Other Funds represents \$52,778 collected in the current tax collection fund that had not been distributed at March 31, 2006, to the various funds as follows:

General Fund	<u>\$ 52,778</u>
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**TOWNSHIP OF CUSTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

**NOTE E: CAPITAL ASSETS**

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>	<u>CAPITAL ASSETS DEPRECIATED</u>		
	<u>Land</u>	<u>Buildings &amp; Improv.</u>	<u>Equipment</u>	<u>Totals</u>
<i>Governmental Activities</i>				
<i>Capital Assets</i>				
Balance, April 1, 2003	\$ 20,724	\$ 110,014	\$ 9,700	\$ 140,438
Increases	-	5,753	-	5,753
Decreases	-	-	-	-
Balance, March 31, 2006	<u>20,724</u>	<u>115,767</u>	<u>9,700</u>	<u>146,191</u>
<i>Accumulated Depreciation</i>				
Balance, April 1, 2003	-	35,442	9,700	45,142
Increases	-	2,895	-	2,895
Decreases	-	-	-	-
Balance, March 31, 2006	<u>-</u>	<u>38,337</u>	<u>9,700</u>	<u>48,037</u>
<i>Capital Assets, Net</i>	<u>\$ 20,724</u>	<u>\$ 77,430</u>	<u>\$ -</u>	<u>\$ 98,154</u>

**NOTE F: LONG-TERM DEBT**

As of March 31, 2006, the Township had the following long-term debt:

	<u>Balance 4/01/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 3/31/06</u>
1999 Special Assessment Bond	\$ 75,000	\$ -	\$ 5,000	\$ 70,000

The Special Assessment Bond proceeds were used to improve roads and paths in the "Schuss Mountain" area. The future years obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999 Special Assessment Bond			
2007	\$ 10,000	\$ 3,388	\$ 13,388
2008	10,000	2,938	12,938
2009	10,000	2,478	12,478
2010	5,000	2,008	7,008
2011	10,000	1,768	11,768
2012-2014	<u>25,000</u>	<u>2,318</u>	<u>27,318</u>
Total	<u>\$ 70,000</u>	<u>\$ 14,898</u>	<u>\$ 84,898</u>

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE G: RESTRICTED FUND BALANCE/NET ASSETS**

The Township has one special assessment for the improvement of roads/paths in the Schuss Mountain area. This revenue source is to be used for a "restricted" purpose, so if earned revenues are unexpended they are properly recorded as a "restricted fund balance". The restricted fund balance at March 31, 2006, was \$19,540.

**NOTE H: PENSION PLAN**

The Township of Custer adopted a defined contribution pension plan covering the Township board members on November 1, 1979. The plan was amended November 1, 1997.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

The Township Board members may enter the plan immediately and are eligible provided they are between the ages of 18 and 75. Contributions made by both the Township and participants vest immediately. The participant will receive benefits at age 65 or if later upon completion of 10 years of participation in the plan. The plan allows early retirement at age 55.

Contributions are made to the plan by the Township upon a schedule amount annually. The participants may contribute up to an additional 5% of compensation.

The plan is maintained with Manufacturers Life Insurance Company. The total pension expense for the year was \$10,900 which meets the contribution requirements of the Township based upon compensation of \$53,850. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or participants.

**TOWNSHIP OF CUSTER  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE I: CONTINGENCIES**

**INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

**MANCELONA AREA WATER AND SEWER AUTHORITY**

As a participating member of the Mancelona Area Water and Sewer Authority, the Township is named as a party to the "bond financing" used to purchase the Schuss Mountain water supply system. The original amount of the bonds was \$2,770,000. The bonds are currently being paid back through a special assessment to property owners, as well as the general revenues of the Water Authority. If the Authority ever defaulted on bond payments, the Township may be held responsible to the bond holders.

**TOWNSHIP OF CUSTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**YEAR ENDED MARCH 31, 2006**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES:</b>				
Property Taxes	\$ 180,000	\$ 180,000	\$ 172,950	\$ (7,050)
Delinquent Personal Property Taxes	-	-	54,370	54,370
Property Taxes - Ambulance	42,000	42,000	42,672	672
Special Assessment - Trash	110,000	110,000	104,845	(5,155)
Special Assessment - SVEPOA	-	-	14,576	14,576
Special Assessment - Water	130,000	130,000	130,575	575
State Grants:				
State Shared Revenue	50,000	50,000	66,728	16,728
Swamp Tax	-	-	197	197
METRO Act Funding	-	-	4,955	4,955
Charges for Services:				
Property Tax Administration Fee	32,500	32,500	14,463	(18,037)
Summer Tax Reimb.	10,000	10,000	3,064	(6,936)
Interest	10,000	10,000	25,776	15,776
Royalties	-	-	8,286	8,286
Hall Rental	2,000	2,000	2,915	915
Miscellaneous	-	-	10	10
<b>Total Revenues</b>	<b>566,500</b>	<b>566,500</b>	<b>646,382</b>	<b>79,882</b>
<b>EXPENDITURES:</b>				
<b>GENERAL GOVERNMENT</b>				
<b>Township Board:</b>				
Salaries - Trustees	5,000	5,000	3,550	1,450
Payroll - Other	2,000	2,000	1,412	588
Payroll Taxes	2,000	2,000	1,230	770
Pension Plan	14,000	14,000	10,900	3,100
Community Promotion	6,000	6,000	14,590	(8,590)
Insurance and Bonds	6,000	6,000	4,739	1,261
Professional Fees	8,000	10,000	5,000	5,000
Association Fees	1,500	1,500	1,425	75
Printing and Publishing	2,000	2,000	1,107	893
Street Lights	1,600	1,600	1,157	443
Miscellaneous	1,500	1,500	722	778
Capital Outlay	5,000	5,000	-	5,000
Contingency	30,000	30,000	-	30,000
<b>Total Township Board</b>	<b>84,600</b>	<b>86,600</b>	<b>45,832</b>	<b>40,768</b>
<b>Supervisor:</b>				
Salary	7,800	7,800	7,800	-
Salary - Deputy	800	800	850	(50)
Communications	50	50	50	-
District Meeting	60	60	-	60
Miscellaneous	290	290	-	290
<b>Total Supervisor</b>	<b>\$ 9,000</b>	<b>\$ 9,000</b>	<b>\$ 8,700</b>	<b>\$ 300</b>

**TOWNSHIP OF CUSTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**YEAR ENDED MARCH 31, 2006**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Election:</b>				
Wages	\$ 1,600	\$ 1,600	\$ -	\$ 1,600
Election School	500	500	-	500
Supplies	100	100	-	100
Transportation	100	100	-	100
Printing	100	100	-	100
<b>Total Election</b>	<b>2,400</b>	<b>2,400</b>	<b>-</b>	<b>2,400</b>
<b>Assessor:</b>				
Salary	16,500	16,500	16,500	-
Professional Fees	-	-	-	-
Education and Training	1,000	1,000	815	185
Office Supplies & Postage	1,500	1,500	1,911	(411)
Communications	50	50	50	-
Transportation	500	500	-	500
Capital Outlay	5,000	3,000	457	2,543
<b>Total Assessor</b>	<b>24,550</b>	<b>22,550</b>	<b>19,733</b>	<b>2,817</b>
<b>Clerk:</b>				
Salary - Clerk	13,000	13,000	13,000	-
Salary - Deputy	800	800	800	-
Education and Training	700	700	264	436
Office Supplies & Postage	900	900	299	601
Transportation	400	400	119	281
Communications	50	50	50	-
Capital Outlay	2,000	2,000	-	2,000
<b>Total Clerk</b>	<b>17,850</b>	<b>17,850</b>	<b>14,532</b>	<b>3,318</b>
<b>Board of Review:</b>				
Salary - Board of Review	1,500	1,500	1,400	100
Education and Training	300	300	300	-
Transportation	100	100	27	73
Office Supplies	125	125	-	125
<b>Total Board of Review</b>	<b>\$ 2,025</b>	<b>\$ 2,025</b>	<b>\$ 1,727</b>	<b>\$ 298</b>

**TOWNSHIP OF CUSTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**YEAR ENDED MARCH 31, 2006**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Treasurer:</b>				
Salary - Treasurer	\$ 18,000	\$ 18,000	\$ 15,782	\$ 2,218
Salaries - Deputy/Clerical	1,500	1,500	1,490	10
Office Supplies	2,000	2,000	168	1,832
Postage	3,500	3,500	2,053	1,447
Data Processing	5,000	5,000	3,412	1,588
Communications	50	50	50	-
Transportation	200	200	38	162
Publication	100	100	-	100
Education and Training	500	500	1,090	(590)
Capital Outlay	2,000	2,000	935	1,065
Total Treasurer	32,850	32,850	25,018	7,832
<b>Buildings and Grounds:</b>				
Utilities	3,500	3,500	4,143	(643)
Repair and Maintenance	4,000	4,000	1,191	2,809
Telephone	1,400	1,400	1,282	118
Hall Rental Refunds	1,000	1,000	950	50
Supplies	2,000	2,000	562	1,438
Capital Outlay	50,000	50,000	-	50,000
Land Improvements	2,000	2,000	-	2,000
Total Buildings and Grounds	63,900	63,900	8,128	55,772
<b>Cemetery:</b>				
Repair and Maintenance/Labor	5,000	5,000	5,071	(71)
Supplies	600	600	883	(283)
Gas, Oil and Repair	1,000	1,000	194	806
Grave Openings	1,000	1,000	-	1,000
Capital Outlay	2,000	2,000	-	2,000
Land Improvement	20,000	20,000	1,125	18,875
Total Cemetery	\$ 29,600	\$ 29,600	\$ 7,273	\$ 22,327

**TOWNSHIP OF CUSTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**YEAR ENDED MARCH 31, 2006**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Parks</b>	\$ 3,200	\$ 3,200	\$ 588	\$ 2,612
<b>Trash Pickup</b>	110,000	110,000	87,390	22,610
<b>Roads</b>	134,525	134,525	131,940	2,585
<b>Water Services</b>	130,000	130,000	130,575	(575)
<b>Special Assessments:</b>				
Path	-	-	1,580	(1,580)
Debt Service - SVEPOA	-	-	8,608	(8,608)
Total Special Assessments	-	-	10,188	(10,188)
<b>Total General Government</b>	644,500	644,500	491,624	152,876
<b>PUBLIC SAFETY</b>				
Ambulance Services	42,000	42,000	42,672	(672)
<b>TOTAL EXPENDITURES</b>	686,500	686,500	534,296	152,204
Excess (Deficiency) of Revenues Over Expenditures	(120,000)	(120,000)	112,086	232,086
<b>Fund Balance - Beginning of Year</b>	963,740	963,740	963,740	-
<b>Fund Balance - End of Year</b>	<u>\$ 843,740</u>	<u>\$ 843,740</u>	<u>\$ 1,075,826</u>	<u>\$ 232,086</u>

**TOWNSHIP OF CUSTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FIRE FUND**  
**YEAR ENDED MARCH 31, 2006**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
Special Assessment	\$ 160,000	\$ 160,000	\$ 159,969	\$ (31)
Interest Income	-	-	1,162	1,162
Total Revenues	160,000	160,000	161,131	1,131
<b>EXPENDITURES</b>				
Fire Protection Services	162,000	162,000	161,830	170
Total Expenditures	162,000	162,000	161,830	170
Excess (Deficiency) of Revenues Over Expenditures	2,000	2,000	(699)	1,301
Fund Balance - Beginning of Year	19,624	19,624	19,624	-
Fund Balance - End of Year	<u>\$ 17,624</u>	<u>\$ 17,624</u>	<u>\$ 18,925</u>	<u>\$ 1,301</u>